

**CHEROKEE
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

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CHEROKEE COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2003 Election)

Laurie Gerstandt	President	2005
Mark Lux	Vice President	2003
Laura Dawson		2004
Kirk Ebel		2004
Kirk Sampson		2005

(After September, 2003 Election)

Laurie Gerstandt	President	2005
Laura Dawson	Vice President	2004
Kirk Ebel		2004
Kirk Sampson		2005
Terri Weaver		2006

SCHOOL OFFICIALS

Marlin Lode	Superintendent
Joyce Lundsgaard	District Secretary/ Treasurer

Independent Auditor's Report

To the Board of Education of the
Cherokee Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Cherokee Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Cherokee Community School District as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 11 to the general purpose financial statements, during the year ended June 30, 2004, Cherokee Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Statement No. 37 Basic Financial Statements and Management's Discussion and Analysis; Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated September 8, 2004 on our consideration of Cherokee Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 34 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cherokee Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the general purpose financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

September 8, 2004

CHEROKEE COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

Cherokee Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$8,749,299 in fiscal year 2003 to \$8,458,280 in fiscal year 2004, while General Fund expenditures increased from \$8,272,901 in fiscal year 2003 to \$8,408,707 in fiscal year 2004.
- The decrease in General Fund revenues was primarily attributable to an across the board cut in state foundation aid and other state funding cuts. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. The General Fund balance increased due to savings realized by 11 employees taking early retirement over the previous two year periods. Some of these positions were not filled and others were replaced with new hires at a lower salary. Tech purchases and professional development costs have also been lowered.
- Due to budget planning the district has maintained a solvent financial position.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of Statement of Net Assets and a Statement of Activities. These provide information about the activities of Cherokee Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Cherokee Community School District operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Cherokee Community School District acts solely as agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Cherokee Community School District

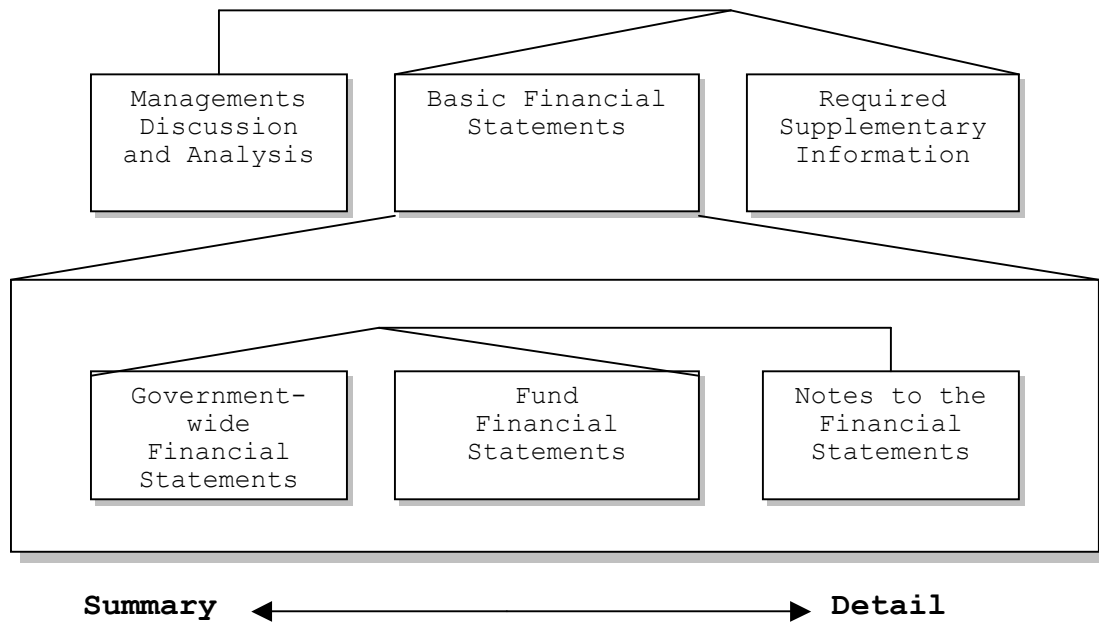


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain the remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows	. Statement of fiduciary net assets . Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the Government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's program.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Fund.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.
- 3) *Fiduciary Funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as a scholarship fund. The District accounts for outside donations for specific purpose in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	2004	2003	2004	2003	2004	2003	2003-04
	\$	\$	\$	\$	\$	\$	
Current assets	5,284	5,956	39	36	5,323	5,992	-11.16%
Capital assets	9,680	9,578	76	83	9,756	9,661	0.98%
Total assets	<u>14,964</u>	<u>15,534</u>	<u>115</u>	<u>119</u>	<u>15,079</u>	<u>15,653</u>	<u>-3.67%</u>
Current liabilities	4,191	4,689	4	-	4,195	4,689	-10.54%
Non-current liabilities	6,840	7,095	-	-	6,840	7,095	-3.59%
Total liabilities	<u>11,031</u>	<u>11,784</u>	<u>4</u>	<u>-</u>	<u>11,035</u>	<u>11,784</u>	<u>-6.36%</u>
Net Assets							
Invested in capital assets, net of related debt	3,390	2,973	76	83	3,466	3,056	13.42%
Restricted	138	428	-	-	138	428	-67.76%
Unrestricted	405	349	35	36	440	385	14.29%
Total net assets	<u>3,933</u>	<u>3,750</u>	<u>111</u>	<u>119</u>	<u>4,044</u>	<u>3,869</u>	<u>4.52%</u>

The District's combined net assets increased by over 4%, or approximately \$175,000 over the prior year. The largest portion of the District's net assets is invested in capital assets.

Unrestricted net assets - the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased approximately \$55,000 or 14%. This increase in unrestricted net assets was a result of savings realized as a result of cost savings measures.

Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	541	266	807
Operating grants, contributions and restricted interest	1,331	170	1,501
Capital grants, contributions and restricted interest	200		
General revenues:			
Property tax	3,572	-	3,572
Unrestricted state grants	4,022	-	4,022
Unrestricted investment earnings	4	-	4
Other	236	-	236
Total revenues	9,906	436	10,342
Program expenses:			
Governmental activities:			
Instruction	6,037	-	6,037
Support Services	2,539	-	2,539
Non-instructional programs	-	444	444
Other expenses	1,147	-	1,147
Total expenses	9,723	444	10,167
Change in net assets	183	(8)	175

Property tax and unrestricted state grants account for 73% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 84% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$9,905,480 and expenses were \$9,722,500.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	6,037	4,505
Support Services	2,539	2,531
Other expenditures	<u>1,147</u>	<u>615</u>
Totals	<u>9,723</u>	<u>7,651</u>

- The cost financed by users of the District's programs was \$541,379.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,040,242.
- The net cost of governmental activities was financed with \$3,571,826 in property and other taxes and \$4,021,641 in unrestricted state grants.

Business-Type Activities

Revenues for business type activities were \$436,060 and expenses were \$443,575. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for food service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the District held meal prices steady.

INDIVIDUAL FUND ANALYSIS

As previously noted, Cherokee Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$3,933,399, a five percent increase over last year's ending fund balances of \$3,750,419.

Governmental Fund Highlights

- The District's improving General Fund financial position is the result of several factors. The District has carefully monitored discretionary spending to avoid decreases in fund balances. The preservation of the General Fund balance is especially important in light of the State's decision to remove the budget guarantee.
- The Physical Plant and Equipment Levy (PPEL levy) decreased over \$60,000 in order to allow the district to make necessary improvements to the HVAC systems. Matching funds for these improvements were received from the Federal Demonstration Construction Grant.

Proprietary Fund Highlights

The School Nutrition Fund balance decreased approximately \$3,700 during the fiscal year ending June 30, 2004. This was a result of depreciation on fixed assets. The cash balance increased approximately \$5,000 due to an increase in revenues.

BUDGETARY HIGHLIGHTS

The District's receipts were \$65,919 lower than budgeted receipts, a variance of 1%. This variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$9,755,519, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 1% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expenses for the year was \$467,164.

The original cost of the District's capital assets was \$15,187,512. Governmental funds account for \$15,063,070, with the remainder of \$124,442 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the improvements progress category. The District spent \$409,317 on improvements to buildings and sites during the year.

Figure A-6
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
	\$	\$	\$	\$	\$	\$	
Land	714	714	-	-	714	714	0.00%
Land improvements	798	879	-	-	798	879	-9.22%
Buildings	7,659	7,468	-	-	7,659	7,468	2.56%
Furniture and equipment	508	515	75	83	583	598	-2.51%
Totals	<u>9,679</u>	<u>9,576</u>	<u>75</u>	<u>83</u>	<u>9,754</u>	<u>9,659</u>	<u>0.98%</u>

Long-term Debt

The District has outstanding debt of \$6,290,000 for a New Middle School built in 1999. The bond will be paid in the year 2018.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future.

- The SILO tax was passed in February, 2004 and money will begin to be received by the District in September of 2004. These funds will be used for debt reduction resulting in property tax relief for the taxpayers.

- For the 2003-04 school year the state cut the District's budget by 2.5%. This was an across the board cut, effecting Phase I & II and Teacher Compensation as well as other areas. This will force the District to use some of the cash on hand to maintain programs at current levels. Cuts made during the fiscal year negatively impact the District's balances and forced the district to make budget reductions.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", "GASB 34", reduction in state aid for juvenile homes and the unfunded PSEO mandate to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joyce Lundsgaard, District Secretary/Treasurer, Cherokee Community School District, 600 West Bluff, Cherokee, Iowa 51012.

Basic Financial Statements

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	1,037,008	19,256	1,056,264
Receivables:			
Property tax:			
Current year	54,161	-	54,161
Succeeding year	3,474,672	-	3,474,672
Income surtax	157,222	-	157,222
Due from other governments	79,266	-	79,266
Other receivables	80,169	-	80,169
Inventories	-	20,083	20,083
Restricted assets (note 9):			
ISCAP investments	#REF!	-	#REF!
Capital assets, net of accumulated depreciation (note 3)	9,680,039	75,480	9,755,519
Total assets	#REF!	114,819	#REF!
Liabilities			
Accounts payable	9,735	3,763	13,498
Accrued salary and benefits	120,256	-	120,256
Accrued interest payable	23,659	-	23,659
ISCAP warrants payable (note 9)	405,000	-	405,000
Deferred revenue:			
Succeeding year property tax	3,474,672	-	3,474,672
Income surtax	157,222	-	157,222
Long term liabilities:			
Portion due within one year:			
Early retirement	180,193	-	180,193
Bonds payable (note 4)	330,000	-	330,000
Portion due after one year:			
Early retirement	369,979	-	369,979
Bonds payable (note 4)	5,960,000	-	5,960,000
Total liabilities	11,030,716	3,763	11,034,479
Net assets			
Invested in capital assets, net of related debt	3,390,039	75,480	3,465,519
Restricted for:			
Debt service	17,246	-	17,246
Physical plant and equipment levy	87,728	-	87,728
Special purposes	33,564	-	33,564
Unrestricted	#REF!	35,576	#REF!
Total net assets	#REF!	111,056	#REF!

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Expenses	Program Revenues				Governmental Activities	Business-Type Activities	Total
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest				
	\$	\$	\$	\$	\$	\$	\$	\$
<u>Functions/Programs</u>								
Governmental activities:								
Instruction:								
Regular instruction	3,898,520	254,809	371,134	-	(3,272,577)	-	-	(3,272,577)
Special instruction	1,547,996	286,570	334,045	-	(927,381)	-	-	(927,381)
Other instruction	590,205	-	285,609	-	(304,596)	-	-	(304,596)
	<u>6,036,721</u>	<u>541,379</u>	<u>990,788</u>	<u>-</u>	<u>(4,504,554)</u>	<u>-</u>	<u>-</u>	<u>(4,504,554)</u>
Support services:								
Student services	333,180	-	7,073	-	(326,107)	-	-	(326,107)
Instructional staff services	199,325	-	-	-	(199,325)	-	-	(199,325)
Administration services	973,019	-	-	-	(973,019)	-	-	(973,019)
Operation and maintenance of plant services	786,034	-	-	-	(786,034)	-	-	(786,034)
Transportation services	239,341	-	890	-	(238,451)	-	-	(238,451)
Other support services	8,380	-	-	-	(8,380)	-	-	(8,380)
	<u>2,539,279</u>	<u>-</u>	<u>7,963</u>	<u>-</u>	<u>(2,531,316)</u>	<u>-</u>	<u>-</u>	<u>(2,531,316)</u>
Other expenditures:								
Interest on long-term debt	297,768	-	1,593	-	(296,175)	-	-	(296,175)
Long-term debt services	300	-	-	-	(300)	-	-	(300)
Facilities acquisition and construction	97,346	-	6,911	200,000	109,565	-	-	109,565
AEA flowthrough	323,297	-	323,297	-	-	-	-	-
Depreciation (unallocated)*	427,789	-	-	-	(427,789)	-	-	(427,789)
	<u>1,146,500</u>	<u>-</u>	<u>331,801</u>	<u>200,000</u>	<u>(614,699)</u>	<u>-</u>	<u>-</u>	<u>(614,699)</u>
Total governmental activities	9,722,500	541,379	1,330,552	200,000	(7,650,569)	-	-	(7,650,569)

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues				Governmental Activities	Business-Type Activities	Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest			
	\$	\$	\$	\$	\$	\$	\$
Business-Type activities:							
Non-instructional programs:							
Nutrition services	<u>443,575</u>	<u>266,066</u>	<u>169,994</u>	<u>-</u>	<u>-</u>	<u>(7,515)</u>	<u>(7,515)</u>
Total	<u>10,166,075</u>	<u>807,445</u>	<u>1,500,546</u>	<u>200,000</u>	<u>(7,650,569)</u>	<u>(7,515)</u>	<u>(7,658,084)</u>
General revenues:							
Property tax levied for:							
General purposes					2,547,453	-	2,547,453
Management fund					231,528	-	231,528
Capital outlay					179,237	-	179,237
Debt service					613,608		613,608
Income surtax					146,603		146,603
Unrestricted state grants					4,021,641	-	4,021,641
Unrestricted investment earnings					4,321	-	4,321
Other					<u>89,158</u>	<u>-</u>	<u>89,158</u>
Total general revenue					<u>7,833,549</u>	<u>-</u>	<u>7,833,549</u>
Change in net assets					182,980	(7,515)	175,465
Net assets beginning of year, as restated (note 11)					<u>3,750,419</u>	<u>118,571</u>	<u>3,868,990</u>
Net assets end of year					<u><u>3,933,399</u></u>	<u><u>111,056</u></u>	<u><u>4,044,455</u></u>

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2004

	General	Debt Service	Non-major Special Revenue	Total
	\$		\$	\$
Assets				
Cash and pooled investments	823,345	7,281	206,382	1,037,008
ISCAP investments	401,578	-	-	401,578
Receivables:				
Property tax:				
Current year	37,849	9,965	6,347	54,161
Succeeding year	2,406,876	614,108	453,688	3,474,672
Income surtax	157,222	-	-	157,222
Due from other governments	79,266	-	-	79,266
Other receivables	80,169	-	-	80,169
Total assets	<u>3,986,305</u>	<u>631,354</u>	<u>666,417</u>	<u>5,284,076</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	9,735	-	-	9,735
Accrued salary and benefits	120,256	-	-	120,256
ISCAP warrants payable (note 9)	405,000	-	-	405,000
Deferred revenue:				
Succeeding year property tax	2,406,876	614,108	453,688	3,474,672
Income surtax	157,222	-	-	157,222
Total liabilities	<u>3,099,089</u>	<u>614,108</u>	<u>453,688</u>	<u>4,166,885</u>
Fund balances:				
Reserved for debt services	-	17,246	-	17,246
Unreserved, designated for special purposes	33,564	-	-	33,564
Unreserved, undesignated	853,652	-	212,729	1,066,381
Total fund balances	<u>887,216</u>	<u>17,246</u>	<u>212,729</u>	<u>1,117,191</u>
Total liabilities and fund balances	<u>3,986,305</u>	<u>631,354</u>	<u>666,417</u>	<u>5,284,076</u>

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (Exhibit C)		\$ 1,117,191
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		9,680,039
Accrued interest payable on long-term liabilities is not due and payable in the current period and , therefore, is not reported as a liability in the governmental funds.		(23,659)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
Early retirement payable	\$ (550,172)	
Bonds payable	<u>(6,290,000)</u>	<u>(6,840,172)</u>
Net assets of governmental activities (Exhibit A)		<u><u>\$ 3,933,399</u></u>

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	2,694,056	613,608	-	410,765	3,718,429
Tuition	541,379	-	-	-	541,379
Other	160,962	955	39	221,009	382,965
State sources	4,743,766	638	-	186	4,744,590
Federal sources	318,117	-	-	200,000	518,117
Total revenues	8,458,280	615,201	39	831,960	9,905,480
Expenditures:					
Instruction:					
Regular instruction	3,857,821	-	-	153,820	4,011,641
Special instruction	1,547,996	-	-	-	1,547,996
Other instruction	394,420	-	-	221,505	615,925
	5,800,237	-	-	375,325	6,175,562
Support services					
Student services	333,180	-	-	-	333,180
Instructional staff services	199,325	-	-	-	199,325
Administration services	877,381	-	-	95,638	973,019
Operation and maintenance of plant services	657,242	-	-	163,205	820,447
Transportation services	209,665	-	-	-	209,665
Other support services	8,380	-	-	-	8,380
	2,285,173	-	-	258,843	2,544,016
Other expenditures:					
Long-term debt:					
Principal	-	315,000	-	-	315,000
Interest	-	299,028	-	-	299,028
Services	-	300	-	-	300
Facilities acquisition and construction	-	-	140,015	283,754	423,769
AEA flowthrough	323,297	-	-	-	323,297
	323,297	614,328	140,015	283,754	1,361,394
Total expenditures	8,408,707	614,328	140,015	917,922	10,080,972
Excess (deficiency) of revenues over (under) expenditures	49,573	873	(139,976)	(85,962)	(175,492)
Fund balances beginning of year, as restated (note 11)	837,643	16,373	139,976	298,691	1,292,683
Fund balances end of year	887,216	17,246	-	212,729	1,117,191

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances - total governmental funds (Exhibit E) \$ (175,492)

**Amounts reported for governmental activities in the statement of
activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 561,953	
Depreciation expense	<u>(459,477)</u>	102,476

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 1,260

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 315,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	<u>(60,264)</u>
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Change in net assets of governmental activities (Exhibit B) \$ 182,980

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund

Year ended June 30, 2004

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>266,066</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	138,765
Benefits	58,151
Services	2,810
Supplies	236,162
Depreciation	<u>7,687</u>
Total operating expenses	<u>443,575</u>
Operating (loss)	<u>(177,509)</u>
Non-operating revenues:	
Interest on investments	122
State sources	5,497
Federal sources	<u>164,375</u>
	<u>169,994</u>
Change in net assets	(7,515)
Net assets beginning of year	<u>118,571</u>
Net assets end of year	<u><u>111,056</u></u>

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2004

	School Nutrition
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	266,066
Cash payments to employees for services	(196,916)
Cash payments to suppliers for goods or services	(208,310)
Net cash (used in) operating activities	<u>(139,160)</u>
Cash flows from non-capital financing activities:	
State grants received	5,497
Federal grants received	138,532
Net cash provided by non-capital financing activities	<u>144,029</u>
Cash flows from investing activities:	
Interest on investments	<u>122</u>
Net increase in cash and cash equivalents	4,991
Cash and cash equivalents beginning of year	<u>14,265</u>
Cash and cash equivalents end of year	<u><u>19,256</u></u>
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating (loss)	(177,509)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	7,687
Commodities used	25,843
Decrease in inventory	1,056
Increase in accounts payable	3,763
	<u>(139,160)</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	<u><u>19,256</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received federal commodities valued at \$25,843.

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2003

	Private Purpose Trusts
	<u>\$</u>
Assets	
Cash and pooled investments	<u>52,607</u>
Total assets	<u>52,607</u>
Net Assets	
Reserved for special purposes	<u>52,607</u>
Total net assets	<u><u>52,607</u></u>

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2003

	Private Purpose Trusts \$
Additions:	
Local sources:	
Interest on investments	2,170
Contributions	<u>12,350</u>
Total additions	<u>14,520</u>
Deductions:	
Support services:	
Other	<u>210,339</u>
Total deductions	<u>210,339</u>
Change in net assets	(195,819)
Net assets beginning of year	<u>248,426</u>
Net assets end of year	<u><u>52,607</u></u>

See notes to financial statements.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

Cherokee Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Cherokee, Iowa, and agricultural territory in Cherokee County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

A. Reporting Entity

For financial reporting purposes, Cherokee Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Cherokee Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Cherokee County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The statements of net assets and the statement of activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operation fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary fund is the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus". The Government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Property, furniture and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for employees with annual contracts corresponding to the current school year, which is payable in July, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term obligations - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2004 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public fund.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2004.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as restated (note 11)	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	714,434	-	-	714,434
Capital assets being depreciated:				
Land Improvements	1,618,470	-	-	1,618,470
Buildings	10,125,863	409,317	-	10,535,180
Furniture and Equipment	2,042,350	152,636	-	2,194,986
Total capital assets being depreciated	13,786,683	561,953	-	14,348,636
Less accumulated depreciation for:				
Land Improvements	739,023	80,923	-	819,946
Buildings	2,657,650	218,365	-	2,876,015
Furniture and Equipment	1,526,881	160,189	-	1,687,070
Total accumulated depreciation	4,923,554	459,477	-	5,383,031
Total capital assets being depreciated, net	8,863,129	102,476	-	8,965,605
Governmental activities, capital assets, net	9,577,563	102,476	-	9,680,039

	Balance Beginning of Year, as restated (note 11)	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	128,897	-	4,455	124,442
Less accumulated depreciation	<u>45,730</u>	<u>7,687</u>	<u>4,455</u>	<u>48,962</u>
Business type activities capital assets, net	<u>83,167</u>	<u>(7,687)</u>	<u>-</u>	<u>75,480</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Support services:

Operation and maintenance of plant	2,012
Transportation	29,676
Unallocated	<u>427,789</u>
	<u>459,477</u>

Business Type activities:

Food service operations	<u>7,687</u>
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(4) Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2005	4.80%	\$ 330,000	283,908	613,908
2006	4.80	350,000	268,068	618,068
2007	4.80	365,000	251,268	616,268
2008	4.80	380,000	233,748	613,748
2009	4.10	400,000	215,508	615,508
2010	4.20	415,000	199,108	614,108
2011	4.25	435,000	181,678	616,678
2012	4.30	450,000	163,192	613,192
2013	4.30	470,000	143,840	613,840
2014	4.40	490,000	123,630	613,630
2015	4.50	515,000	102,070	617,070
2016	4.60	535,000	78,896	613,896
2017	4.70	565,000	54,286	619,286
2018	4.70	<u>590,000</u>	<u>27,730</u>	<u>617,730</u>
Total		<u>\$6,290,000</u>	<u>2,326,930</u>	<u>8,616,930</u>

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2004 is as follows:

	Bonds Payable
Balance beginning of year	\$6,605,000
Additions	-
Reductions	<u>315,000</u>
Balance end of year	<u>\$6,290,000</u>

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$305,632, \$308,550, and \$324,502 respectively, equal to the required contributions for each year.

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$323,297 for year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to the employee's salary calculated by using the current year regular salary schedule, less the current year base pay. Early retirement benefits paid during the year ended June 30, 2004 totaled \$153,821.

(9) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards, administered by Wells Fargo Bank, Iowa, N.A, and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Wells Fargo maintains ISCAP accounts for each participating entity and provides monthly statements regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. A summary of the District's participation in ISCAP as of June 30, 2004 is as follows:

<u>Series</u>	<u>Date(s) Funds are Available</u>	<u>Final Warrant Maturity</u>	<u>Investment</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2004-05A	6/30/04	6/30/05	\$401,578	-	405,000	-

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no advance activity for the year ended June 30, 2004.

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2004-05A	3.00%	2.463%

(10) Risk Management

Cherokee Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Accounting Change

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the fiscal year ending June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include Government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

Governmental Accounting Standards Board (GASB) Statement Number 38, Certain Financial Statement Note Disclosure, requires certain disclosures be made in the notes to the financial statements concurrent with the implementation of Statement Number 34.

The Government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

	<u>Fund</u>				<u>Total</u>
	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Non-major Special Revenue</u>	
Net assets, June 30, 2003, as previously reported	\$837,643	16,373	139,976	146,064	1,140,256
GASB Interpretation 6 adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>152,427</u>	<u>152,427</u>
Net assets, July 1, 2003, as restated for governmental funds	<u>\$837,643</u>	<u>16,373</u>	<u>139,976</u>	<u>298,691</u>	1,292,683
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation					9,577,563
Accrued interest payable					(24,919)
Long-Term Liabilities:					
Early retirement					(489,908)
Bonds payable					(6,605,000)
Net assets, July 1, 2003, as restated					<u>\$ 3,750,419</u>

Required Supplementary Information

CHEROKEE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues						
Local sources	4,662,691	266,188	4,928,879	4,987,476	4,987,476	(58,597)
State sources	4,744,590	5,497	4,750,087	4,980,058	4,980,058	(229,971)
Federal sources	518,117	138,532	656,649	434,000	434,000	222,649
Total revenues	9,925,398	410,217	10,335,615	10,401,534	10,401,534	(65,919)
Expenditures						
Instruction	6,357,412	-	6,357,412	6,970,476	6,970,476	613,064
Support services	2,544,016	-	2,544,016	2,623,743	2,623,743	79,727
Non-instructional programs	-	405,226	405,226	436,860	436,860	31,634
Other expenditures	1,261,394	-	1,261,394	1,277,601	1,277,601	16,207
Total expenditures	10,162,822	405,226	10,568,048	11,308,680	11,308,680	740,632
Excess of revenues over expenditures	(237,424)	4,991	(232,433)	(907,146)	(907,146)	674,713
Other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(237,424)	4,991	(232,433)	(907,146)	(907,146)	674,713
Balance beginning of year	1,274,432	14,265	1,288,697	1,313,460	1,313,460	3,347,565
Balance end of year	1,037,008	19,256	1,056,264	406,314	406,314	4,022,278

See accompanying independent auditor's report.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Type		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	9,925,398	(19,918)	9,905,480
Expenditures	10,162,822	(81,850)	10,080,972
Net	(237,424)	61,932	(175,492)
Other financing sources (uses)	-	-	-
Beginning fund balances	1,274,432	18,251	1,292,683
Ending fund balances	<u>1,037,008</u>	<u>80,183</u>	<u>1,117,191</u>

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	410,217	25,843	436,060
Expenditures	405,226	38,349	443,575
Net	4,991	(12,506)	(7,515)
Beginning fund balances	14,265	104,306	118,571
Ending fund balances	<u>19,256</u>	<u>91,800</u>	<u>111,056</u>

See accompanying independent auditor's report.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the budget and appropriations lapse at year-end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

The District did not exceed the amounts budgeted in any of the four functional areas.

Other Supplementary Information

CHEROKEE COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Non-major Special Revenue Funds

June 30, 2004

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	70,760	50,805	84,817	206,382
Property tax receivable:				
Current year	3,436	-	2,911	6,347
Succeeding year	286,000	-	167,688	453,688
Total assets	<u>360,196</u>	<u>50,805</u>	<u>255,416</u>	<u>666,417</u>
Liabilities and Fund Equity				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	286,000	-	167,688	453,688
Fund equity:				
Unreserved, undesignated fund balance	74,196	50,805	87,728	212,729
Total liabilities and fund equity	<u>360,196</u>	<u>50,805</u>	<u>255,416</u>	<u>666,417</u>

See accompanying independent auditor's report.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Non-major Special Revenue Funds

Year ended June 30, 2004

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	231,528	-	179,237	410,765
Other	142	214,181	6,686	221,009
State sources	-	-	186	186
Federal sources	-	-	200,000	200,000
Total revenues	<u>231,670</u>	<u>214,181</u>	<u>386,109</u>	<u>831,960</u>
Expenditures:				
Instruction:				
Regular instruction	153,820	-	-	153,820
Co-curricular instruction	-	221,505	-	221,505
Support services:				
Administration	95,638	-	-	95,638
Plant operation and maintenance	-	-	163,205	163,205
Other expenditures:				
Facilities acquisition and construction	-	-	283,754	283,754
Total expenditures	<u>249,458</u>	<u>221,505</u>	<u>446,959</u>	<u>917,922</u>
(Deficiency) of revenues (under) expenditures	(17,788)	(7,324)	(60,850)	(85,962)
Fund balances beginning of year, as restated (note 11)	<u>91,984</u>	<u>58,129</u>	<u>148,578</u>	<u>298,691</u>
Balance end of year	<u><u>74,196</u></u>	<u><u>50,805</u></u>	<u><u>87,728</u></u>	<u><u>212,729</u></u>

See accompanying independent auditor's report.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
WHS Vocal Fundraising	5,568	6,023	5,439	6,152
WHS Band	-	2,145	2,145	-
WHS Athletics	200	4,910	5,110	-
WHS Athletic Pop & Juice	42	1,897	1,939	-
Cherokeean	631	2,659	3,021	269
Culinary Arts	1,758	5,380	5,708	1,430
Music	-	1,377	1,377	-
School to Work	33	-	-	33
National Honor Society	-	941	941	-
Debate	-	2,018	2,018	-
Speech	-	2,135	2,135	-
Cheerleaders	2,392	4,206	5,849	749
Art Club	8,355	4,557	4,993	7,919
Model United Nations	3,102	-	3,102	-
Activities	(58)	-	(58)	-
Student Council	6,064	2,425	4,262	4,227
Class of 2007	-	410	83	327
Class of 2006	-	425	369	56
Class of 2005	-	13,637	11,896	1,741
Class of 2004	2,305	410	2,715	-
Concessions	(195)	16,264	15,619	450
FHA	2,108	2,346	2,701	1,753
Orchestra	-	809	371	438
German Club	11,504	14,786	17,072	9,218
Drama	15	2,798	2,813	-
Special Athletes	1,129	406	160	1,375
Spanish Club	2,623	576	679	2,520
FFA	2,008	2,540	3,129	1,419
NOW Interest	154	666	820	-
CMS Student Council	954	1,143	879	1,218
CMS Band	1,106	100	75	1,131
CMS Vocal	-	272	272	-
CMS Activity Resale	1,085	1,748	2,372	461
CMS Science Club	1,000	-	698	302
Roosevelt Student Council	409	-	-	409
Drill Team	470	-	-	470
CMS Athletics	-	5,908	5,908	-
Middle School Volleyball	332	-	-	332
Cross Country	-	1,463	1,463	-
Weightlifting	(484)	8,845	3,395	4,966
Boys Basketball	-	5,325	5,325	-
Football	-	14,509	14,509	-
Baseball	333	11,956	12,289	-
Boys Track	-	3,341	3,341	-

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Boys Tennis	-	584	584	-
Boys Golf	35	2,132	2,167	-
Wrestling	-	8,382	8,382	-
Girls Basketball	75	2,191	2,266	-
Volleyball Fundraiser	566	944	965	545
Volleyball	-	3,667	3,667	-
Girls Softball	1,336	2,986	4,322	-
Girls Track	-	2,397	2,397	-
Girls Tennis	-	455	455	-
Girls Golf	-	3,314	3,314	-
Miscellaneous Activities	-	35,430	35,430	-
WHS Safety Glasses and Padlocks	680	143	529	294
WHS Work Study	494	200	93	601
Total	58,129	214,181	221,505	50,805

See accompanying independent auditor's report.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Combining Statement of Net Assets

Fiduciary Funds - Private Purpose Trusts

Year ended June 30, 2004

	Coop Learning	Interest Account	Student Health	Thomas Account	Student Scholarship Fund	Vera Pratt Memorial	Totals
	\$	\$	\$	\$	\$	\$	\$
Assets							
Cash and pooled investments	<u>2,874</u>	<u>12,532</u>	<u>1,001</u>	<u>23,849</u>	<u>6,175</u>	<u>6,176</u>	<u>52,607</u>
	<u>2,874</u>	<u>12,532</u>	<u>1,001</u>	<u>23,849</u>	<u>6,175</u>	<u>6,176</u>	<u>52,607</u>
Net assets							
Reserved for special purposes	<u>2,874</u>	<u>12,532</u>	<u>1,001</u>	<u>23,849</u>	<u>6,175</u>	<u>6,176</u>	<u>52,607</u>
	<u>2,874</u>	<u>12,532</u>	<u>1,001</u>	<u>23,849</u>	<u>6,175</u>	<u>6,176</u>	<u>52,607</u>

See accompanying independent auditor's report.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Fiduciary Funds - Private Purpose Trusts

Year ended June 30, 2004

	Coop Learning	Interest Account	Student Health	Thomas Account	Student Scholarship Fund	Vera Pratt Memorial
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Interest on investments	-	419	-	-	-	332
Contributions	-	-	-	6,000	6,350	-
	-	419	-	6,000	6,350	332
Expenditures:						
Instruction:						
Regular instruction:						
Other	-	-	-	13,597	5,750	200
	-	-	-	13,597	5,750	200
Excess (deficiency) of revenues over (under) expenditures	-	419	-	(7,597)	600	132
Balance beginning of year	2,874	12,113	1,001	31,446	5,575	6,044
Balance end of year	2,874	12,532	1,001	23,849	6,175	6,176

CHEROKEE COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Fiduciary Funds - Private Purpose Trusts

Year ended June 30, 2004

	Fulton Memorial	Donna Marie Pickens Scholarship	Emalyn Hankens Library	Kenny Kohn Scholarship	Clayton Courtright Scholarship	Charles & Hanna Lindberg Scholarship	Total
	\$	\$	\$	\$	\$	\$	\$
Revenues:							
Local sources:							
Interest on investments	-	459	956	-	-	4	2,170
Contributions	-	-	-	-	-	-	12,350
	-	459	956	-	-	4	14,520
Expenditures:							
Instruction:							
Regular instruction:							
Other	71	109,235	71,562	6,722	2,202	1,000	210,339
	71	109,235	71,562	6,722	2,202	1,000	210,339
Excess (deficiency) of revenues over (under) expenditures	(71)	(108,776)	(70,606)	(6,722)	(2,202)	(996)	(195,819)
Balance beginning of year	71	108,776	70,606	6,722	2,202	996	248,426
Balance end of year	-	-	-	-	-	-	52,607

See accompanying independent auditor's report.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

	Years ended June 30,			
	2004	2003	2002	2001
	\$	\$	\$	\$
Local sources:				
Local tax:				
Property tax	3,565,273	3,670,664	3,323,208	3,218,235
Mobile home tax	6,553	6,602	6,058	6,177
Income surtax	<u>146,603</u>	<u>149,249</u>	<u>112,923</u>	<u>118,251</u>
	<u>3,718,429</u>	<u>3,826,515</u>	<u>3,442,189</u>	<u>3,342,663</u>
State sources:				
State foundation aid	4,018,889	4,237,318	4,018,834	4,359,159
School improvement and technology	-	27,819	24,023	74,279
AEA flow through	323,297	350,192	348,387	367,715
Instructional support	24,164	-	29,891	34,828
Shelter care/juvenile home	23,368	8,980	28,323	37,499
Educational excellence program:				
Phase I	18,609	20,190	20,190	20,602
Phase II	90,110	96,268	96,028	101,255
Phase III	-	23,920	54,876	56,415
Non-public transportation aid	890	846	864	830
At risk program	60,482	49,918	81,146	91,233
Vocational education aid	10,663	9,294	7,979	8,794
Iowa Early Intervention Block Grant	68,613	73,525	66,877	45,617
Revenue in lieu of taxes - military credit	3,576	3,561	-	-
Teacher mentoring program	10,400	10,400	1,300	-
Evaluator training	3,000	3,000	-	-
Teacher quality/salary improvement	<u>88,528</u>	<u>81,098</u>	<u>78,881</u>	<u>-</u>
	<u>4,744,589</u>	<u>4,996,329</u>	<u>4,857,599</u>	<u>5,198,226</u>
Federal sources:				
Title I Grants to Local Educational Agencies	121,949	144,530	138,408	140,837
Class Size Reduction	-	-	24,285	19,132
Safe and Drug Free Schools - State Grant	5,762	5,011	3,949	4,250
Improving Teacher Quality - Grants to States	38,639	39,952	-	-
Eisenhower Regional Mathematics and Science Education Consortia	-	-	2,253	2,555
Innovative Education Program Strategies	5,598	5,817	5,930	5,867
Title XIX Assistance Program	1,311	1,685	5,044	4,072
Vocational Education - Basic Grant	60,765	59,944	54,807	52,384
Iowa Demonstration Construction Grant	200,000	-	-	-
Grants for Assessments and Related Activities	12,496	-	-	-
Special Education - Grants to States				
Success 4	15,199	23,550	26,581	20,000
IDEA Part B	<u>44,433</u>	<u>28,181</u>	<u>14,327</u>	<u>-</u>
	<u>506,152</u>	<u>308,670</u>	<u>275,584</u>	<u>249,097</u>
Total	<u><u>8,969,170</u></u>	<u><u>9,131,514</u></u>	<u><u>8,575,372</u></u>	<u><u>8,789,986</u></u>

See accompanying independent auditor's report.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u> \$
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Food Distribution (non-cash)	10.550	FY04	<u>25,843</u>
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY04	17,063
National School Lunch Program	10.555	FY04	<u>121,469</u>
			<u>138,532</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	G-1152-04	117,015
Innovative Educational Program Strategies (Title V)	84.298	FY04	5,598
Grants for Assessments and Related Activities	84.369	FY04	12,496
Improving Teacher Quality - Grants to States	84.348	FY04	46,887
Safe and Drug-Free Schools and Communities - States Grants	84.186	FY04	4,987
Iowa Demonstration Construction Grant	84.215K	FY04	200,000
Vocational Education - Basic Grants to States	84.048	FY04	60,574
Cherokee County Dept of Public Health			
Title XIX Medical Assistance Program	93.778	FY04	1,079
Prairie Lakes Area Education Agency:			
Special Education - Grants to States (Success 4)	84.027	FY04	9,240
Special Education - Grants to States (IDEA Part B)	84.027	FY04	<u>44,433</u>
Total			<u><u>666,684</u></u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Cherokee Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

See accompanying independent auditor's report.

**Independent Auditor's Report on Compliance and
on Internal Control over Financial Reporting**

To the Board of Education of the
Cherokee Community School District:

We have audited the financial statements of the Cherokee Community School District, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 8, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Cherokee Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cherokee Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Cherokee Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 04-II-A is a material weakness. Prior year reportable conditions have all been resolved except for item 04-II-A.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Cherokee Community School District and other parties to whom Cherokee Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Cherokee Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

September 8, 2004

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance**

To the Board of Education of the
Cherokee Community School District:

Compliance

We have audited the compliance of Cherokee Community School District, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Cherokee Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Cherokee Community School District's management. Our responsibility is to express an opinion on Cherokee Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cherokee Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Cherokee Community School District's compliance with those requirements.

In our opinion Cherokee Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Cherokee Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Cherokee Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Cherokee Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item 04-III-A Part III of the accompanying Schedule of Findings and Questions Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 04-III-A is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Cherokee Community School District and other parties to whom Cherokee Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

BRUCE D. FRINK
Certified Public Accountant

September 8, 2004

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance that is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.215K - Iowa Demonstration Construction GrantSchool Nutrition Clustered Programs:
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.553 - School Breakfast Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Cherokee Community School District did not qualify as a low-risk auditee.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

04-II-A SEGREGATION OF DUTIES

Comment - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties that are incompatible. The District has done a good job of segregating duties among the present staff, however, the District Secretary continues to have the ability to override the present controls and circumvent the internal control system.

Recommendation - We realize the job description, as defined by the Code of Iowa, of the District Secretary makes the segregation of duties even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and the administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will continue to review procedures to obtain the best controls possible.

Conclusion - Response accepted.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part III: Findings For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number: 84.215K Iowa Construction Demonstration Grant

Federal Award Year: 2004

US Department of Education

Passed through Iowa Department of Education

CFDA Number: 10.553 School Breakfast Program

10.555 National School Lunch Program

Federal Award Year: 2004

US Department of Agriculture

Passed through Iowa Department of Education

04-III-A Segregation of Duties over Federal Funds - One important aspect of internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties that are incompatible. The District has done a good job of segregating duties among the present staff, however, the District Secretary continues to have the ability to override the present controls and circumvent the internal control system.

Recommendation - We realize the job description, as defined by the Code of Iowa, of the District Secretary makes the segregation of duties even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and the administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will continue to review procedures to obtain the best controls possible.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

04-IV-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

04-IV-B Certified Budget - Expenditures for the year ended June 30, 2004, did not exceed the amounts budgeted.

04-IV-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-IV-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

CHEROKEE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part IV: Other Findings Related to Required Statutory Reporting:
(continued) :

- 04-IV-E Business Transactions - No business transactions between the District and District officials or employees were noted.
- 04-IV-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 04-IV-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 04-IV-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 04-IV-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 04-IV-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

